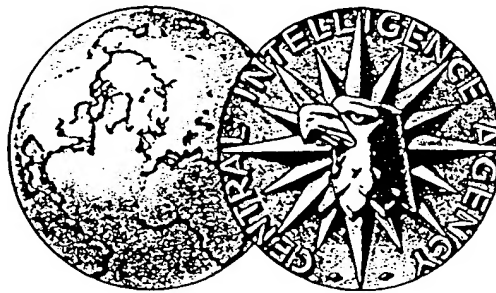


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CURRENT SITUATION IN GREECE

(October 1948)



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CURRENT SITUATION IN GREECE

(October 1948)

SUMMARY

The Greek Army's much-publicized Grammos campaign of last summer did not fundamentally change the situation in Greece. The Grammos guerrillas withdrew to satellite territory, repaired their losses in men and matériel, and reappeared in the Vitsi area, where they are again stubbornly resisting army attacks. At the same time, other guerrilla bands are carrying out terrorist and sabotage raids throughout the country. It is now more apparent than ever that unless the guerrillas are eliminated, there can be no real recovery in Greece.

A year ago, AMAG (American Mission for Aid to Greece) launched an imposing program of development and reconstruction. Significant progress has been made: communications have been repaired; agriculture has been revitalized with modern machinery, irrigation projects, and fertilizer and seeds; industrial production has increased. Nevertheless, total recovery and real economic stability cannot be expected so long as highways and rail lines are subject to guerrilla sabotage, crops and farm machinery are confiscated or destroyed, peasants are forced to flee their farms, businessmen lack the confidence to invest their money locally, and fear and insecurity pervade the country.

The Kremlin has given no indication of abandoning its ultimate objective of bringing Greece under Communist control, and satellite aid to the guerrillas is continuing.* Guerrilla combat strength within Greece now numbers 24,000; operating against the guerrillas is an army of 147,000 men, of whom less than half are combat effectives. US funds and tactical advice have corrected many deficiencies in the army, but the army appears still unable to eliminate the guerrillas. Morale has dropped considerably since the early days of the summer offensive; present delays in the Vitsi operation point to lack of leadership in the Greek Army as one of the most important factors. Of more importance, however, is the guerrillas' ability, after every army drive against guerrilla concentrations in the frontier zone, to reassemble on satellite territory in preparation to strike elsewhere. So long as the guerrillas receive such unneutral satellite aid, which can be expected to continue until the northern border is sealed or a change in Soviet policy effected, it is unlikely that the guerrillas can be totally eradicated.

Meanwhile, both the people and the rank-and-file members of the government itself are dissatisfied with prolongation of the war; there is also a widespread feeling that

* See ORE 67-48 (Continuing Satellite Aid to the Greek Guerrillas), published 8 October 1948.

Note: The information in this report is as of 21 October 1948.

The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

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Greece is caught in the struggle between the West and the East, and that the Greeks are not merely fighting their own battle. In the absence of conspicuous army successes, these feelings may lead to the downfall of the present coalition government, which might possibly be replaced by an authoritarian regime of the Right. Such a regime might effect a temporary improvement in the military situation, but it could not long survive without aid from abroad. Without such aid the regime could hardly prevent the strengthening of the Communists; the eventual outcome would probably be a Communist Greece.

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CURRENT SITUATION IN GREECE

(October 1948)

1. MILITARY SITUATION.

The effective reconstruction of Greece depends on the ability of the army to eliminate the guerrilla forces. Yet after two years of army action, including seven months of the recent intensive summer campaign, the guerrillas are numerically stronger and better equipped than they were a year ago.

In late 1946, after a period of quiescence following the abortive revolution at the end of the occupation, the resurgent guerrillas launched a campaign of raiding and sabotage paralyzing to national recovery. Farmers were forced to flee their land, villages were destroyed, communications were cut. An undertrained army was forced to begin operations against the bands, which by this time were receiving concrete aid from the Satellites to the north.

The first campaign in the summer of 1947 was a failure. Some of the failure lay with the army itself—a defensive rather than an offensive spirit, lack of initiative in the field, bad timing, inadequate training for anti-guerrilla operations and mountain warfare, and political interference preventing the proper concentration of forces. But the chief causes of the failure were inadequate troops, terrain which favored highly mobile bands not committed to defend given points, and, in the border areas, the guerrillas' tactical advantage arising from their ability to slip safely into satellite countries. Having tested the army's offensive ability, the guerrillas, once content with evasive action, began to stand and defend certain areas, probably with the idea of establishing a safe area for a "free government." For the same reason they initiated offensive operations to capture large towns.

During the fall and winter certain changes in the national forces were made which promised more successful operations in the future. The high command was reorganized; a National Defense Corps of 50,000 men was approved for the purpose of providing static defense for villages, thereby releasing army units for offensive action; US supplies began to arrive in significant amounts; and US tactical advisers were appointed to army units.

In April 1948 a new series of operations was begun. These operations at first appeared successful; the timetable lagged, however, and the guerrillas, in spite of losses of men and matériel, for the most part escaped encirclement and annihilation. New arms, hospitalization, and tactical refuge were continually provided by the satellites. The summer campaign culminated in the battle for the Grammos area in northwest Greece. There, supplied with artillery and anti-aircraft guns, their flanks well anchored on the Albanian border and protected by strong defenses and mine fields, an estimated 12,000-15,000 guerrillas (including combat replacements) successfully defended themselves for two and one-half months against the attack of an estimated 50,000 combat effectives of the Greek Army. The guerrillas were eventually forced into Albania, but they quickly reappeared, strengthened by replacements, in the Vitsi area to the north. Attacks against this concentration have so far failed. Mean-

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while guerrilla units have generally maintained their position in other mountainous sectors along the northern border, except for one or two areas where the Greek Army is now in control; over Greece as a whole the destructive activities of guerrilla units have actually been increasing since the early summer of 1948.

Guerrilla combat strength in Greece is now estimated at about 24,000 men, not including reserves or the persons both inside and outside Greece who are providing varying degrees of logistical support. Many guerrillas are forced recruits effectively held by threats of death or reprisals against their families. The hard core of the guerrillas is determined; the officers are thoroughly familiar with local terrain; and the whole organization is encouraged, advised, and aided by the Satellites. Although, as pointed out, static defensive action is sometimes taken, the guerrilla principle of operation is in general to produce as much social and economic chaos as possible through terror and sabotage raids.

Operating against the guerrillas is an army of 147,000 (with a temporary over-strength of 15,000). US funds and tactical advice have corrected many deficiencies in the army, but it appears still unable to eliminate the guerrillas, who have demonstrated their ability to hold successive positions along the northern border. Morale has dropped considerably since the early days of the summer offensive; present delays in the Vitsi operation point to lack of leadership in the Greek Army as one of the most important factors. Of more importance, however, is the ability of the guerrillas, with the aid of the Satellites, to reassemble after every drive to strike again wherever opportunity offers. More determined leadership and stronger action than has heretofore been employed, as well as a possible increase in strength, may enable the Greek Army to contain the guerrillas near the frontier and to reduce the peril in the interior of the country. Yet it seems unlikely that the guerrillas can be totally eliminated until the northern border is sealed or until a change in Soviet policy is effected.

2. POLITICAL SITUATION.

When the Greek Government-in-Exile returned to Greece in 1944, its existence was immediately threatened by Communist subversion and armed revolt. Although British intervention prevented the revolt from succeeding, the threat to the government still remained, as the non-Communist politicians, placing short-sighted party interests ahead of the national good, prevented the formation of a strong united front and the implementation of measures designed to revive the stricken country. Only slowly did the politicians admit to the military and economic danger confronting the country, and it was not until January 1947 that they agreed to form a coalition government under a non-political figure. No working cooperation was achieved, however, until September 1947, when a coalition more representative of popular feeling was formed by the two major parties, the Liberals and the Populists. This government controlled 288 out of 354 parliamentary seats, pledged mutual cooperation, and enjoyed the blessing and financial backing of the US.

The two chief tasks of the government were to eliminate the militant Communist

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opposition and to hold the line against inflation until the effects of the rehabilitation plans financed by AMAG (American Mission for Aid to Greece) could be felt. The government has only partially succeeded in accomplishing these tasks. It outlawed the Communist Party and rendered ineffective the Communist underground's activities in the cities and towns. On the other hand, it has not been able to effect a political surrender of the guerrillas, and its efforts to bring about a cessation of satellite-provided aid to the guerrillas (either by direct negotiation or through the UN) have been frustrated by the intransigence of Moscow and the Satellites. The army has generally wrested the military initiative from the guerrillas, but it has not brought about any reduction in their strength or re-established security in any significant areas. On the economic front, the government has held the line against runaway inflation, but various factors have interfered with rehabilitation, wages have lagged behind a rising cost of living, and high production costs have increased the difficulty of selling Greek products on the world markets.

The Greek Government has maintained as democratic a character as possible under the circumstances. Excesses have taken place, but these have been the result of a reaction against Communist terrorism rather than any real tendency toward fascism as the Soviet-Satellite presses would like to prove. Fair judicial procedure has obtained; parliamentary debate has been limited only by self-imposed security restrictions; and trade unions have functioned within the necessarily severe recovery laws. The present government is dominated by the Right, which traditionally serves ultra-conservative and private interests but also represents the anti-Communist proclivities of the people. The political temper of the people and the composition of the government will move toward the center only as the Communist threat recedes.

There has been and is now discontent with government inefficiency, nepotism, and over-centralization of power. US missions have attempted to improve certain departments, to reduce the swollen ranks of the civil service, and to place more authority in the hands of the local governments; little has been accomplished to date, and while much can be done at present to improve the political situation and strengthen the government's position vis-à-vis the Communists, many of the basic political reforms that are needed must await more settled conditions.

At present the continuation of the coalition government is endangered by a threatened revolt within the ranks of both the Populist and Liberal Parties. This quarrel may result in a reshuffling of the cabinet but will not substantially change the character of the government. Much more threatening is the increasing dissatisfaction among both the people and the rank-and-file members of the government over prolongation of the war against the guerrillas. Unless the army soon achieves more conspicuous successes, this dissatisfaction will crystallize, and the government may fall, with the strong possibility of being replaced by an authoritarian regime of the Right. Such a regime might effect a temporary improvement in the military situation, but it could not long survive without aid from abroad. Without such aid the regime could hardly prevent the strengthening of the Communists; the eventual outcome would probably be a Communist Greece.

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The large majority of Greek people are nationalistic, democratic, pro-Anglo-American; they fear the USSR and hate the Greek Communists, who have conducted a ruthless campaign of terror in the countryside. Given assurance of hope and stability through continuing US aid, the people should eventually be able to reaffirm their democratic principles; given continued fear and hopelessness, they will succumb, however unwillingly, to the persistent pressure of the determined, militant Communists.

3. ECONOMIC SITUATION.

a. *General Background.*

Modern Greece has always been over-populated and poor, with an export deficit and a burden of foreign debt. Only 20 percent of the land is arable; yet agriculture is the principal occupation and provides almost three-fourths of all exports. The small, diversified industry produces for local consumption but is dependent on imports for machinery, fuel, and many raw materials. Government programs which promised to modernize and develop agriculture and industry were interrupted by the war, and without help could not be resumed upon liberation. Since the war, over \$1.5 billion of foreign aid, supplied by the UK, US, UNRRA, and various private relief agencies, have provided immediate consumer needs and helped restore essential facilities. However, world-wide economic dislocations, internal political instability, and guerrilla warfare have prevented the effective revival of economic activity even to prewar levels.

b. *Transportation.*

The Greek transportation system is as yet able to perform scarcely more than minimum economic and military functions. The barely adequate prewar system of roads and railways, augmented to a large extent by coastal shipping, was paralyzed by the war. Prior to inauguration of the AMAG program a year ago, patchwork repairs had restored minimum road and railway service and opened ports to foreign shipments, but no major reconstruction had been undertaken. The program has made steady progress throughout the year. The Corinth Canal has been restored; three main ports have been partially rebuilt; six major military airfields have been improved; work on 1,800 kilometers of road has gone forward, and the bridges and tunnels of the Athens-Salonika railway are under reconstruction. Recent and increasingly widespread guerrilla attacks on transportation, deliberate terrorization of Greek reconstruction works, and destruction of scarce equipment have already slowed or halted certain of the AMAG projects besides limiting the movement of supplies, troops, and passengers. The guerrillas give every indication of continuing their concerted effort to hamper reconstruction, and the lack of sufficient government security troops will give them the opportunity to do so. In view of the present guerrilla situation, it is doubtful whether AMAG will be able to maintain its schedule or whether completed projects can be successfully protected from further guerrilla damage.

c. *Agriculture.*

Greek agriculture has recovered fairly rapidly from the war, with the aid

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of UNRRA, AMAG, and favorable weather; since 1946 production has averaged 85-90 percent of prewar. In addition to supplying seed, fertilizer, and farm equipment, AMAG has instituted a program of irrigation, modernization, and construction of processing and storage facilities which will eventually decrease Greece's dependence on food imports and increase its export surplus. The current picture, however, is not encouraging. For some years Greek agriculture will continue to need foreign aid. Furthermore, no satisfactory foreign market for Greek crops has been found since the war. Most seriously, current production is continually threatened by the guerrilla war. During 1947-48, livestock numbers have been substantially decreased owing to guerrilla looting; a significant quantity of grain and other crops has been seized or burned; and roughly 15 percent of the agricultural population has left the farms for refuge in the towns.

d. Industry and Mines.

UNRRA and AMAG industrial programs have made only fair progress. Mining, which suffered severe damage during the war and lost its German market as well, has slowly climbed to a level around 23 percent of prewar. The index of industrial production rose to a peak of 74.4 percent of its prewar level at the end of 1947, then receded to a June 1948 level of 65 percent. There are varied reasons for this lag. World shortages and lack of foreign exchange have hindered imports of raw materials and machinery despite extensive UNRRA and AMAG efforts directed toward procurement. Fuel has been limited by lack of foreign exchange and by the loss of oil imported from Haifa; the Greek Government has required certain industries to use Greek lignite as a substitute for foreign fuels, but low caloric content and disproportionately high prices limit its usefulness. Postwar political instability has kept business confidence low and discouraged the investment of Greek capital in domestic industries, and inflation has reduced the effective demand of both domestic and foreign buyers. Recovery was further retarded by a series of early AMAG restrictive measures taken to meet pressing budgetary, foreign exchange, and inflation problems. AMAG has already taken positive steps, however, to stimulate industry by making investment loans, helping to find foreign markets for products, and encouraging new industries which can make maximum use of Greek resources and reduce Greek import requirements. While these measures should ultimately provide a more healthful climate for reviving and expanding production, no significant progress can be expected until the problem of internal security has been solved.

e. Labor.

Greek labor is restive under the pressure of rising prices. Since the November 1947 wage agreement, prices have steadily risen to a point where wages now have only 40 percent of their prewar purchasing power. There have been periodic strikes throughout the past year, none serious, and currently labor is asking a 30 percent general wage increase. The government, with AMAG support, has resisted an inflationary increase but has been forced for political and economic reasons to make some adjust-

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ments. The danger of widespread crippling strikes is remote, in view of the moderate and cooperative attitude of most of labor, the negligible Communist influence in the unions, and the government's emergency authority to mobilize workers striking against the national interest.

f. Finance.

During the past year of severe economic strain the Greek Government and AMAG have managed to prevent runaway inflation. Tax increases, budget and credit controls, a wage freeze, and an improved import procedure, benefiting from improved internal security and increased import of consumer goods, actually brought about a downward trend in the cost of living in early 1948. Rather than capitalize on the immediate benefits of a superficially stable financial situation, however, AMAG chose to initiate other reforms designed to bring about more fundamental stability. These further reforms have allowed the general upward trend to continue, and the cost of living now stands at 310 percent of prewar. Even with increased taxes and drastic cuts the Greek budget has not been brought into balance; a deficit of \$140 million is expected in 1948-49 (compared with \$16.6 million in 1946-47, and an estimated \$25 million in 1947-48). The deficit reflects the burdens of supporting 700,000 refugees and 1,400,000 indigents and contributing to the support of an armed force of 223,000. While AMAG and the Greek Government have current inflationary pressures under control, the present delicate balance could be quickly destroyed by any adverse political or military development.

g. Foreign Trade and Balance of Payments.

In the past year Greece has been able to export a limited quantity of products by reverting to barter agreements, but the basic export problem is unsolved. No satisfactory substitute has as yet been found for the prewar German and central European markets, in spite of strenuous AMAG and Greek Government efforts. High production costs still make it difficult for Greece to sell its products profitably abroad at current world prices, and few countries are able to buy the semi-luxury tobacco, olive oil, and fruits which Greece has always exported to help pay for imports of machinery, fuel, and grain. While exports and other sources of foreign exchange have diminished, Greek import needs for current consumption, military purposes, and reconstruction have actually increased. Consequently in 1948-49, as in the past four years, Greece will depend on roughly \$375 million of foreign subsidy.

h. The Economic Outlook.

The \$340 million of US aid to Greece during 1947-48 has gone far both toward preventing the complete deterioration of an unstable military and economic situation and toward establishing a fundamentally more self-sufficient economy through reforms developed jointly by AMAG and the Greek Government; but \$100 million worth of goods over one-fourth of 1948-49 US aid, will still be needed this year to provide the government with sufficient drachma income to balance the Greek budget, and roughly

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\$150 million for military aid, thus leaving only about \$125 million for reconstruction purposes. Until the guerrillas are substantially eliminated, however, special military and economic burdens and lack of business confidence will continue to prevent real economic revival. Even if the guerrillas could be defeated by June 1949, the Greek Government would still need some assistance, although an increasing proportion of any further US aid could be allocated for reconstruction and development. The immediate problem now, as before, is not primarily economic, but one which depends for a successful conclusion on eradication of the guerrillas.

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